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Research Bulletin

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A Publication from INPUT's U.S. Information Services Market Analysis Program

This Just In! INPUT's 1993 U.S. Information Services Market Forecast Completed!

1993 Forecast

In early September INPUT completed its preliminary consolidated U.S. Information Services market forecast. The completed forecast will be delivered later this year as the *U.S. Market Forecast Compendium*, an annual report issued as part of INPUT's Market Analysis Program (MAP).

The forecast offers detailed five-year financial projections for fifteen SIC-defined industry markets and seven cross-industry (non-industry-specific) markets. For each market, 1992 actual and 1993 through 1998 forecast expenditures are offered for up to seven product/service delivery modes, including processing services, turnkey systems, applications software, systems operations, systems integration, professional services, and network services.

The data base containing the final components of the consolidated 1993 U.S. forecast has more than 6,000 discrete elements of data.

Overview

The U.S. Information Services market will continue to grow at a 12% compound annual rate (CAGR) to more than \$236 billion by

1998. The 12% rate is a continuation of the five-year growth rates forecast in 1991 and 1992, and reflects the continuing effects of the lingering economic slowdown and the anticipated slow pace of recovery.

As a matter of interest, Figure 1 shows INPUT's U.S. Information Services five-year compound annual growth rates for the last seven years. Forecast growth declined from 17% in 1987 and 1988 to the 12% projected in

Exhibit 1

U.S. Information Services Market Five-Year Growth Rates

Five-Year Period	INPUT Five-Year CAGR (Percent)
1987-1992	17
1988-1993	17
1989-1994	15
1990-1995	13
1991-1996	12
1992-1997	12
1993-1998	12

Source: INPUT

1991, 1992 and 1993, paralleling the recent trends in the U.S. economy.

Although there will not be an immediate return to the go-go years of the 1980s, 14 of 15 vertical markets show very respectable double-digit five-year compound annual growth rates, ranging from 10% to 17%. Six of the seven cross-industry markets will also grow from 10% to 17% over the next five years.

Delivery Modes: What's Up?

Best and Worst Five-Year Growth Rates - Exhibit 2 identifies the three delivery modes with the best five-year growth rates, and the three with the worst five-year growth rates.

Best Growth - Applications software benefits from the boom in software products written for workstations and PCs—an area growing at more than twice the rate of the markets for mainframe- and minicomputer-based software. By 1998, workstation/PC-based software products will command almost two-thirds of the applications software market.

Network services will continue to be a major growth area as both electronic information services and network applications respond to American industry's almost insatiable demand for on-line data and sophisticated communications systems. Systems operations, especially in the areas of desktop services and network management, will benefit from the

growing trend towards outsourcing of information systems resources as more businesses return to core competencies in order to effectively compete in the 1990s.

Worst Growth - Processing services, systems software, and turnkey systems will have the lowest five-year growth rates. Processing services are reacting to decreased or negative, growth for both transaction and utility processing services. The bright spot is the strong growth in "other" services—such as disaster recovery services.

The systems software product market is being affected as fewer and fewer mainframes are shipped, with a counter trend of increasing sales of lower-cost PC systems software. By 1998, the market for systems software products for the workstation/PC platform will be 25% greater than that for mainframe platforms. Today, the mainframe products have almost 43% of the software products market, while workstation/PC products have 24% and minicomputers 33%.

Except for a few industry-specific markets, such as discrete and process manufacturing, the market for new, dedicated turnkey systems appears limited. Although there is some growth projected, the majority of it will occur in turnkey system-related software products and professional services and not in equipment sales.

Exhibit 2

Delivery Mode Five-Year Growth Rates

Best	Worst
Applications Software	Processing Services
Network Services	Systems Software
Systems Operations	Turnkey Systems

Source: INPUT

Exhibit 3

Delivery Mode 1998 Market Size Extremes

Consideration	Delivery Mode	1998 Size (\$ B)
The Largest Market	Applications Software	48
The Smallest Markets	Systems Integration	19
	Turnkey Systems	20

Source: INPUT

Market Size Extremes - Exhibit 3 identifies the delivery modes with the largest and smallest 1998 markets.

Applications software not only has the largest share of the U.S. Information Services market, \$48 billion in 1998, it also has the third highest five-year growth rate—three percentage points above the IS industry as a whole. The smallest markets, systems integration and turnkey systems, will stand at \$19 billion and \$20 billion, respectively, in 1998. But the systems integration market has a 14% five-year CAGR, while turnkey systems has only an 8% rate.

Industry Markets—What's Hot? What's Not?

Top Markets - INPUT's research and analysis has identified the industry markets noted in Exhibit 4 as those with either the best IS market growth rates or the largest market size in 1998.

Growth Rates - The growth rates of the discrete and process manufacturing industries are benefiting from the resurgence of American industry, retail distribution from the return of the American consumer with money to spend, and telecommunications from the virtually

Exhibit 4

Top Markets

By Five-Year Growth Rate	By Size in 1998 (Dollars)
Discrete Manufacturing	Banking and Finance
Planning and Analysis*	Discrete Manufacturing
Process Manufacturing	Federal Government
Retail Distribution	Health Service
State and Local Government	Process Manufacturing
Telecommunications	State and Local Government

*Cross-industry market

Source: INPUT

limitless cornucopia of new and improved communications-based products and services. State and local government spending is growing as more and more responsibility and funding is being shifted to these areas from the federal sector. All industries use planning and analysis to better deal with the complexities of today's ever-changing business environment.

1998 Market Size - The six industries noted under "Size" will offer the largest markets for Information Services in 1998. The discrete and process manufacturing and state and local government markets will benefit from strong CAGRs, while the federal market, always large, will remain that way—even though it has one of the lowest five-year growth rates. Banking and finance will continue to offer major IS opportunities, and the health services sector (called *Medical* in last year's industry list) offers opportunities for both clinical and administrative applications.

What's Not Hot - Exhibits 5 and 6 offer the flip side of the *what's hot* coin—the market sectors that are growing at the slowest rates, and the ones that will be the smallest markets in 1998.

Slowest Growth Rates - As noted in Exhibit 5, four cross-industry markets, plus the federal sector and the transportation sector, will have the slowest growth rates during the period 1993-1998. As seen in Exhibit 4, the federal sector will still be a major market in 1998, but as various Clinton Administration cost-savings programs are implemented, expenditures for information services are expected to decline. The transportation industry suffers from under utilization and over regulation, and seems to always be dealing with decreasing profits, but its growth rate (CAGR) is expected to remain at a steady 10% over the forecast period.

The four cross-industry markets are all victims of the same trend—as the complexity of business grows, it becomes more difficult to identify and successfully market non-industry-

Exhibit 5

Markets With Slowest Growth Rates

- Education and Training*
- Engineering and Scientific*
- Federal Government
- Human Resources*
- Sales and Marketing*
- Transportation

*Cross-industry market Source: INPUT

Exhibit 6

Smallest Markets* in 1998

- Education and Training
- Engineering and Scientific
- Sales and Marketing

Source: INPUT

*All are cross-industry markets

specific IS products and services. As cross-industry IS services become important to an enterprise, they are folded into the suite of applications or services most useful to that company in that industry, and thus become industry-specific. Industry-specific IS products and services are, of course, accounted for in the appropriate industry sector.

Smallest Markets - The three smallest markets in 1998 are all cross-industry markets. They also share the lowest cross-industry growth rates and have the smallest revenue bases in 1993. INPUT notes that although these markets are small, they are still viable, and represent reasonable opportunities for those vendors choosing to aggressively pursue niche markets or specialize in the areas noted.

Film at 11:00

This bulletin offers a variety of statements and charts illustrating which market segments and delivery modes are growing or not growing, but can only provide a brief overview of market sector and delivery mode growth percentages and amounts. This information, including detailed matrices of precise expenditures and percentages by market, mode and submode, is contained in INPUT's Market Analysis Program's (MAP) 1993 reports on 22 vertical industry and cross-industry markets, and eight delivery modes.

INPUT Reports - Each report offers a detailed analysis of the many factors influencing each of these markets, considers trends and issues, discusses the results and analysis of hundreds of vendor and user interviews, and presents the reasons behind the numbers. Also provided is a detailed reconciliation to the 1992 forecast.

1993 Forecast Compendium - In the Fall of 1993, INPUT will publish its 1993 *U.S. Market Forecast Compendium*, a complete listing of the IS expenditures for each U.S. market segment and delivery mode. In addition, the *Compendium* will contain consolidated totals for both industries and delivery modes. The total represents the size of the U.S. Information Services market.

How to Get More Information - Those readers who have an interest in any of the reports mentioned above, should call their INPUT salesman or contact the nearest INPUT office noted on the back of this research bulletin.

This Research Bulletin is issued as part of INPUT's Information Services Market Analysis Program. If you have questions or comments on this bulletin, please call your local INPUT organization or Robert L. Goodwin at INPUT, 1280 Villa Street, Mountain View, CA 94041-1194, (415) 961-3300.

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